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# NABE Industry Survey

January, 1989

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-December, 1988 and is being reported in January 1989. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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## Current Highlights

* Demand is still rising, but at the slowest pace since Q2, 1986. Could this be signaling another 1985-'86 style slowdown???

* Export demand is showing no tendency to soften. It is still a strong, positive growth force.

* Capital spending is another key area where members continue to report strength.

* Inflation pressures clearly worsened late last year. Prices charged by member firms remained on a steady but strong rising trend. Costs of both materials and people escalated to record levels.

* NABE members' firms are planning for growth this year. Three-quarters of our respondents look for higher sales volume and more than half plan to boost capital spending.

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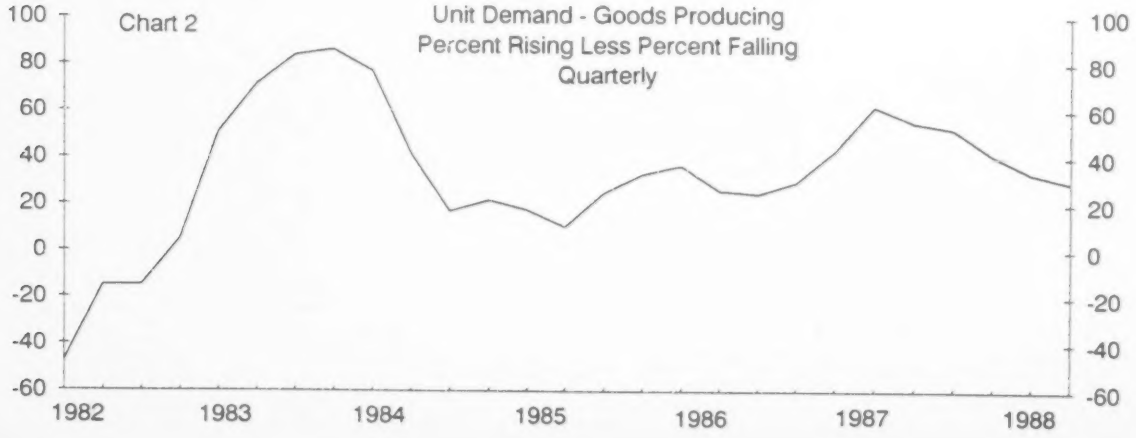
## Unit Demand

Demand continued to rise in the fourth quarter, although at a slower pace than in the third period. Of all respondents, 47.2% reported rising unit demand, down slightly from 52.1% last time. Demand fell at 16.9% of our panelist's firms, up from 11.7% in Q3. The Net Rising Index (percent rising minus percent falling) dipped to 30.3% from 40.4%. Chart 1 reveals that this is the lowest level for the index since an identical reading in the second quarter of 1986.

The net rising index remained positive across all industry groups (see Table). It fell, however, in every sector except retail and wholesale trade where it rose sharply--perhaps confirming reports of a strong Christmas selling season. The financial services sector showed the weakest demand growth. For goods producers, a sector that includes manufacturing, mining, forestry, agriculture and construction, unit demand decelerated for the fifth consecutive quarter. See Chart 2.

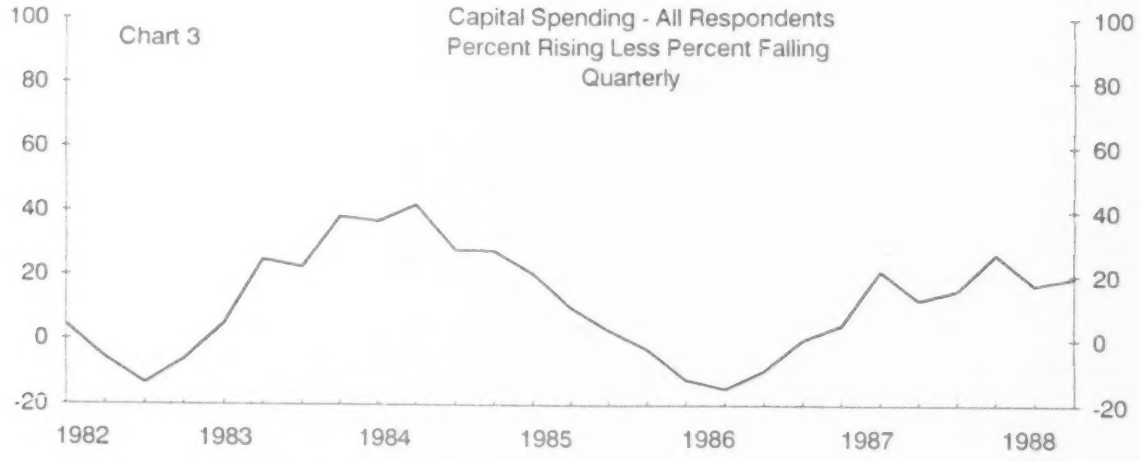
| Sector | Percent Reporting that Demand is: Rising | Staying the Same | Falling | Net Rising |
|---|---|---|---|---|
| Total | 47.2% | 35.9% | 16.9% | 30.3% |
| Goods-Producing | 50.0 | 29.5 | 20.5 | 29.5 |
| Trade | 40.0 | 60.0 | 0.0 | 40.0 |
| TUC | 48.4 | 35.5 | 16.1 | 32.3 |
| Financial Serv. | 31.3 | 50.0 | 18.8 | 12.5 |



## Capital Spending

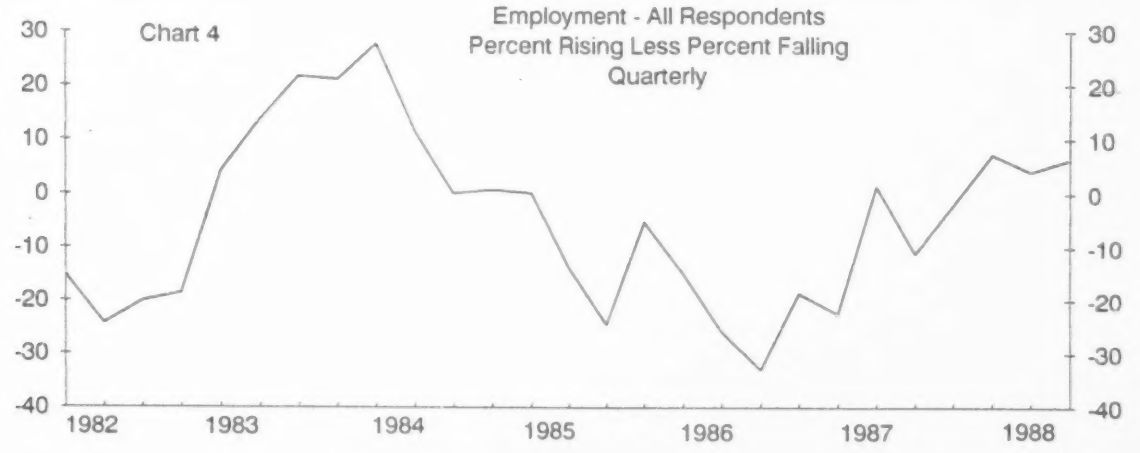
The pace of capital spending accelerated slightly in the final period of 1988 as more than a third of our respondents reported increased expenditures. This was more than twice as many as reported declines. The net rising index shown in Chart 3 rose to 19.2%, and is showing some tendency to flatten out around the +20% level.

| Survey Month | Percent Reporting that Real Capital Spending is: Rising | Staying the Same | Falling | Net Rising |
|---|---|---|---|---|
| Dec. '88 | 34.6% | 50.0% | 15.4% | 19.2% |
| Sept. '88 | 31.8 | 53.4 | 14.8 | 17.0 |
| June '88 | 40.8 | 45.0 | 14.2 | 26.6 |




## Employment

Employment accelerated a bit in last year's final quarter. While most companies (55.6%) continue to report stable employment levels, a quarter of them (25.4%) said net hiring was on the increase. This is the highest "percent rising" reading in more than four years. The net rising index rose to 6.4% from 4.1% in Q3. See Chart 4.



## Inventories

Satisfaction with current inventory levels deteriorated somewhat at the end of 1988. Of all our respondents 55.4% said that stock levels were about right, down from 75.0% in the last survey. Of those who were dissatisfied 27.7% said inventories were too high while 16.9% said they were too low. Goods producers are still adjusting stocks downward. Falling inventories were reported by 38.5% of sector panelists against 33.3% who said they were rising. The -5.2% net rising index is up from the previous period, but still negative. Chart 5.

## Export Performance

Export business strengthened during the last 3 months. Nearly two-thirds of responding members report rising exports, and more than half of this group say that business is accelerating.

| | Percentage of Exporters Whose Exports are: | | |
|---|---|---|---|
| Survey Month | Rising | Staying the Same | Falling |
| Dec. '88 | 64.2% | 34.0% | 1.9% |
| Sept. '88 | 57.5 | 40.0 | 2.5 |
| June '88 | 68.9 | 28.9 | 2.2 |

## Prices and Costs

Prices charged by our respondents' companies are still rising and the net rising index remains at a historically high level. Chart 6. What's more, over 60% of those who said their prices were rising noted an acceleration in the rate of increase during the fourth quarter.

| | Percentage Reporting Their Prices are: | | | Net |
|---|---|---|---|---|
| Survey Month | Rising | Unchanged | Falling | Rising |
| Dec. '88 | 36.9% | 53.2% | 9.9% | 27.0% |
| Sept. '88 | 37.8 | 51.0 | 11.2 | 26.6 |
| June '88 | 31.1 | 62.2 | 6.7 | 24.4 |

Costs escalated sharply in the fourth quarter. Almost two-thirds of our survey sample reported rising prices of input materials. The net rising index jumped six-and-a-half points to 59.7%, a new record for the year. Wages and salaries are now increasing at near half of our respondent's firms. The net rising index rose to over 47% for the first time in the seven year history of the survey. See Chart 7.

| Survey Month | Percent Reporting that Material Costs are: Rising | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Dec. '88 | 64.9% | 29.9% | 5.2% | 59.7% |
| Sept. '88 | 59.7 | 33.9 | 6.5 | 53.2 |
| June '88 | 55.7 | 36.4 | 8.0 | 47.7 |

| Survey Month | Percent Reporting Wages & Salaries: Rising | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Dec. '88 | 48.6% | 50.0% | 1.4% | 47.2% |
| Sept. '88 | 33.3 | 64.5 | 2.2 | 31.1 |
| June '88 | 32.8 | 63.5 | 3.6 | 29.2 |

## Shortages

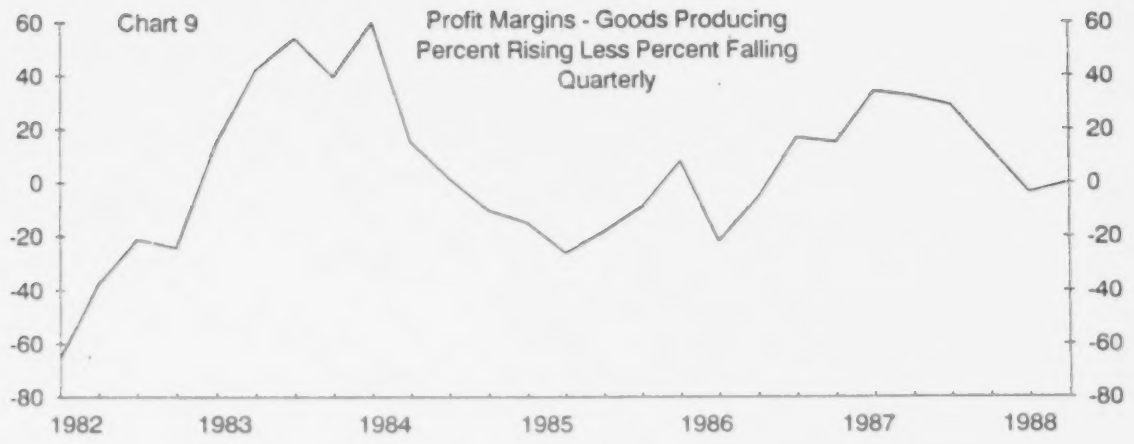
Availability of factor inputs eased ever so slightly in the last period, but almost half of our respondents are still experiencing shortages of one sort or another. The most often mentioned problem continues to be skilled labor.

| Type of input | Percent Reporting Shortages in Survey Month: March | June | Sept. | Dec. |
|---|---|---|---|---|
| Skilled Labor | 16.2% | 25.9% | 32.6% | 28.4% |
| Unskilled Labor | 9.4 | 11.2 | 11.6 | 12.1 |
| Intermediate Inputs | 8.6 | 14.7 | 10.5 | 13.8 |
| Raw Material Inputs | 8.6 | 8.6 | 10.5 | 8.6 |
| Capital Goods | 0.8 | 5.2 | 5.8 | 4.3 |
| No Shortages | 65.8 | 56.0 | 48.8 | 50.9 |

## Profits

Profitability remains a positive force. Just over one-third of all respondents report that their profit margins are increasing. A quarter of them say margins are falling. The net rising index at 8.8% fell slightly from 9.7% in the third quarter, but as Chart 8 shows it has remained fairly stable over the past year. The retail and wholesale trade sector experienced the strongest profit growth last period while goods producers came in with the weakest gains.

| Sector | Percent Reporting that Profit Margins are: Rising | Unchanged | Falling | Net Rising |
|---|---|---|---|---|
| Total | 34.3% | 40.1% | 25.5% | 8.8% |
| Goods-Producing | 28.6 | 42.9 | 28.6 | 0.0 |
| Trade | 60.0 | 20.0 | 20.0 | 40.0 |
| TUC | 33.3 | 43.3 | 23.3 | 10.0 |
| Financial Serv. | 37.5 | 31.3 | 31.3 | 6.2 |




## Looking Ahead

Special questions in the December, 1988 survey asked panelists about their companies' plans or budgets for 1989. Almost all of those responding (95.8%) said that their firm had put together a plan or budget for the new year. They were then asked if their companies were planning for higher, lower, or essentially the same levels of sales volume, employment, and capital spending in 1989 compared with 1988. Results are summarized in the following table.

Percent of all respondents reporting that 1989 plans for key variables are:

| Key Variable | Higher | Same | Lower |
|---|---|---|---|
| Sales Volume | 75.2% | 12.8% | 12.0% |
| Employment | 35.1 | 38.8 | 26.1 |
| Capital Spending | 53.2 | 31.5 | 15.3 |

Three-quarters of all respondents' firms are looking for sales gains this year; one-third are expecting employment growth; and over half plan on increased capital spending. But the answers varied somewhat by industry group as shown below.

Percent of responding firms that expect 1989 growth in:

| | Sales Volume | Employment | Capital Spending |
|---|---|---|---|
| Goods Producing | 71.4% | 26.2% | 53.8% |
| Trade | 100.0 | 50.0 | 50.0 |
| TUC | 73.3 | 26.7 | 53.6 |
| Financial Serv. | 83.3 | 40.0 | 37.0 |

Finally, our panel members were asked to critique their companies' 1989 sales plans. Most (71.5%) said that in their professional judgement their company's sales plan was on target, but a significant number 20.8% thought that the plan was too ambitious. Only 7.7% believed it was too low.